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C O N F I D E N T I A L SECTION 01 OF 03 HARARE 000605

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SUBJECT: GOZ IN DOOMED BID TO END HYPERINFLATION BY FIAT

Summary

11. (SBU) On the heels of a sharp spike in inflation, the GOZ on June 25 began a populist campaign to roll retail prices back to their June 18 level. Using thuggery and intimidation, "crack teams" under a newly established Cabinet Task Force descended first on supermarkets then across the retail sector and even to parastatals, forcing managers to slash their prices by half or more. As a result, supermarket shelves have been stripped of all staples in what one manager called "controlled looting," and the supply chain has collapsed. The business community is scaling back production and trying to lie low until this doomed attempt to curb hyperinflation passes. In the meantime, the already weak economy is shrinking faster than ever, and even the least educated Zimbabwean is tense with apprehension about what's to come. End Summary.

A Graveside Speech Becomes "Law"

12. (C) Following three weeks of rampant inflation which saw prices double, triple and even quadruple (Note: Annual inflation in June reached 25,000 to 30,000 percent according to PricewaterhouseCoopers. End Note), on June 25, a Cabinet Task Force on Price Monitoring and Stabilization led by Minister of Industry and International Trade Obert Mpofu, announced a directive to retailers, wholesalers and manufacturers to reduce prices of basic commodities by up to 50 percent. Three days later, in a graveside speech for a brigadier general, President Mugabe announced that "the nonsense of price escalation must come to an end

immediately." Mugabe accused businesses of profiteering and raising prices to foment civil unrest in support of a Western campaign to support regime change. In language eerily reminiscent of his government's land seizure program, Mugabe threatened to seize businesses and mines that did not comply with the price rollbacks.

13. (SBU) Implementing government policy, police and ZANU-PF youth, so-called "green bombers," descended on supermarkets, demanding the rollback of first a few then all prices to the June 18 level. From supermarkets, the teams moved across most of the retail sector. The ensuing buying frenzy stripped the stores of meat, maize meal, eggs, oil, soap and other staples; it shut down most butcher shops and saw petrol supplies vanish from the market; many commuter buses also stopped servicing their routes under the new prices as the chain of supply collapsed.

14. (C) Dave Mills, Meikles Africa Director of Retail, related to econoff two incidents typical of government-directed activity. Thugs descended on the Meikles-owned TM supermarket in Ruwa, outside Harare, on June 29. They assaulted and detained the store manager when he requested their credentials, then they singled out items to slash in price by half. The next day the same team fell upon the TM supermarket in Harare's affluent Newlands neighborhood. Fearing chaos, the manager reduced the price of all goods by half and then witnessed "controlled looting." Not fitting the normal shopper profile, Mills believed the looters were actually profiteers and ZANU-PF loyalists traveling in the officials' wake.

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Parastatals Unspared - Including "Air Quasi-Fiscal"

15. (SBU) The Task Force also ordered the telecom and aviation parastatals to roll their prices back to June 18 levels. Air Zimbabwe, or "Air Quasi-Fiscal," as economic commentator Jono Waters calls it in his Zfn electronic newsletter (Air Zimbabwe consumes about 2/5 of the GOZ's off-budget subsidies to parastatals) had more than tripled its fares in late June, only to be forced to roll them all back on July 2. The round trip economy class airfare to Beijing, for example, fell back to Z\$61 million from Z\$195 million (at the parallel exchange rate of Z\$140,000:USD that's US\$435 down from US\$1392); its round trip London airfare fell back to US\$300. (Comment: Needless to say, the flights are full) at least outbound. End Comment)

Coping, Or Not, In The Business Community

16. (C) The business community is scrambling to cope. Ian MacKenzie, Managing Director of Olivine Industries, told econoff that he had scaled back production sharply at his fat and oils plant, but not shut down completely in order to appear to abide by the directive and keep himself "out of Chikurubi" - Harare's infamous maximum security prison. Three dozen prominent senior managers and executives were less fortunate. They were arrested this weekend for failing to comply, or comply fast enough, with the directive, according to press reports.

17. (C) Jyots Laxmidas, an apparel manufacturer and footwear retailer in Zimbabwe's second city Bulawayo, told econoff on July 5 that he had closed all seven of his shoe outlets the previous day when told that his prices would have to come down sharply. He planned to comply with the directive and re-open later in the week, but with far fewer products. He added that not a single petrol station was operating in the city that day. At the same time Bulawayo was awash with black marketeers. Hawkers on street corners were selling, at

the old price, bars of soap and other items they had grabbed during the initial price drop. We have seen the same in Harare.

¶8. (C) Glenn Stutchbury, Regional Commercial Director of Meikles Africa Hotels, told us that although the 5-star Meikles Hotel had complied, it would eventually start such sleights of hand as gradually introducing food items that weren't on the menu on June 18, and doing away with Meikles' "standard" category of hotel rooms. Other businessmen were moving stocks of goods out of warehouses in a cat-and-mouse game with inspectors, or simply shutting down temporarily.

9 (C) Mills added that the TM chain of 56 supermarkets and 4,500 employees had begun to send workers on leave and terminate contracts. He also noted that shoppers close to the border had taken advantage of the arbitrage opportunity; all the liquor on sale at TM's Kariba outlet, for example, had found its way across Lake Kariba to Zambia. On July 9, Temba Banda, an accountant at Meikles Africa, told econoff that the GOZ had instructed the company to slash all prices, including clothing and appliances. Meikles had immediately banned all purchases on credit, in a weak defense.

The Law Be Damned

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¶10. (U) After two weeks of enforced price controls and numerous arrests apparently based on verbal orders of cabinet ministers and the president, Industry and International Trade Minister Mpofu issued a statutory instrument formally ordering the price rollbacks. Lawyers have announced plans to challenge arrests taking place before the issuance of the instrument and also the legality of the order itself.

Hope for A Political Solution Within ZANU-PF?

¶11. (SBU) Numerous ZANU-PF heavyweights are involved in industry and retailing, and they are bound to be affected by low prices and ultimately by the unavailability of goods. Business contacts have commented to us that their vulnerability may be an impetus for them to urge the government to reverse course. At the same time, Mugabe has renewed his attacks on "profiteers." Speaking to his base (war veterans, women, and other party stalwarts) at ZANU-PF headquarters on July 6, Mugabe again threatened to confiscate non-complying businesses and blasted those who have challenged the legality of the government's actions.

Comment

¶12. (C) The GOZ's latest doomed bid to control hyperinflation and appeal for popular support in anticipation of next year's scheduled election is certain to quicken the pace of economic contraction as retailers and manufacturers shut down, formal employment shrinks further, and, in lockstep, the GOZ's tax revenue evaporates. The price slashing has populist appeal only in the very shortest term) until the staples disappear from the shelves, which has already happened. Even the least educated Zimbabwean is tense with apprehension about what's next. Inflation can only spiral to new heights as demand-driven price increases for basics joins the RBZ's use of the printing press, running at full speed, to pay for all the unbudgeted subsidies needed to "keep the lights on." With hardly a face-saving option available to Mugabe, he has backed himself well into a corner with this attack on "the forces of regime change." Mugabe appears to be reacting to the threat of hyperinflation in typical style) lash out and try to radicalize the situation. Unfortunately for him, the

laws of economics are not subject to change by government
fiat.
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